

India

REDUCE (no change)

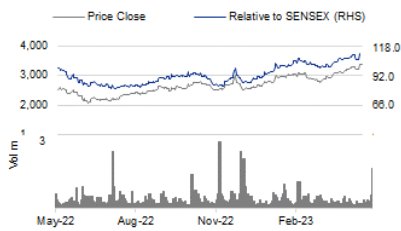
Consensus ratings*: Buy 18 Hold 7 Sell 5

Current price:	Rs3,381
Target price:	Rs3,126 ▲
Previous target:	Rs2,674
Up/downside:	-7.5%
InCred Research / Consensus:	-2.8%
Reuters:	POLC.NS
Bloomberg:	POLYCAB IN
Market cap:	US\$6,974m
	Rs506,386m
Average daily turnover:	US\$15.1m
	Rs1097.9m
Current shares o/s:	149.3m
Free float:	33.8%

*Source: Bloomberg

Key changes in this note

- FY24F/25F revenue raised by 2.7%/4.2%.
- FY24F/25F EBITDA raised by 1.2%/0.3%.
- FY24F/25F PAT cut by 2.7%/4.1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9.6	12.5	33.1
Relative (%)	6.3	10.6	13.1

Major shareholders	% held
Promoter family	66.2
Anil Hariram Hariani	3.2
DSP Equity & Bond Fund	1.5

Analyst(s)



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Polycab India

FY24F hurdles: High base and peak margins

- 4Q beat was led by price revisions, higher cable mix (wire biz muted), rise in exports and higher-margin cable orders. EBITDA/PAT beat: 15-20% vs. Incred.
- Management is confident of achieving the targets under Project Leap. Aspires for Rs200bn+ in sales, 10% export mix and FMEG margin of ~10% by FY26F.
- The stock rose by 30% in the last six months. It trades at a P/E of 35x FY25F EPS while we expect EPS CAGR of 10% over FY23F-25F. Retain REDUCE.

Exits FY23 with market share gains and industry-leading growth

Polycab India's (Polycab) 4QFY23 revenue/EBITDA/PAT stood at Rs43.2bn/Rs6.1bn/Rs4.2bn, +9%/+28%/+32%, respectively. Actuals beat our/Bloomberg consensus EBITDA/PAT estimates by 7%-15%, respectively. Consolidated gross/EBITDA margins were at 25.2%/14.1%, +300bp/+210bp, yoy, respectively. Cable and wire or C&W revenue was at Rs41bn, +15% yoy, 90% of total sales. C&W sales volume growth was 8-9%/21% in 4Q/FY23, respectively. FMEG revenue was at Rs3bn, down 20% yoy, 7% of total sales in 4Q. The C&W segment's industry outperformance was driven by price revisions, higher cable revenue mix, strong growth in exports (50%+ yoy) and higher-margin cable orders executed during the quarter. C&W EBIT margin stood at 14.5%, +290bp yoy while FMEG EBIT margin stood at (2.3%), down 500bp yoy. Net working capital days stood at 62 days of TTM sales at the end of Mar 2023. Dividend payout has been increased, as recommended by the company's board, to nearly 25% (Rs20/share).

Management confident to deliver on Project Leap; FMEG reset done

Polycab's management reiterated its aspirational goals set under Project Leap (growth plan for 2021-2026, two years completed). The target is to garner Rs200bn+ in sales, B2C revenue mix of 50% (wires + FMEG), export revenue mix of 10%+ & FMEG EBITDA margin of 10%+ by FY26F. Polycab expects FMEG sales/margins to bounce back (FY23 sales: Rs12.6bn, flat yoy, 4Q: Rs3bn, down 20% yoy) sharply due to new product launches and pipeline, product innovation, higher premium sales mix, enhanced distribution reach and consistent brand spends at 4-5% of FMEG sales. The fan manufacturing capacity expansion is complete at Halol (6m units) to launch premium TPW and ceiling fans while switch manufacturing has been totally shifted in-house in 2HFY23. We expect revenue/EBITDA CAGR of 13%/10%, respectively, implying Rs20bn FCF over FY23-25F.

Change in our estimates, valuation and risks

We raised revenue by 3-4%, cut EBITDA margin by 20-50bp and reduced PAT estimates by 2-4% for FY24F & FY25F. We build in C&W/FMEG revenue CAGR of 11.5%/16.5%, respectively, over FY23-25F. We expect a PAT CAGR of 10.4% over the same period. Though Polycab has beaten our estimates in 2HFY23, we feel continued outperformance will be difficult given a high C&W base and near peak EBITDA margin. We retain REDUCE rating. We roll forward a year ahead and have a higher TP of Rs3,126 (Rs2,674 earlier) based on a P/E of 32x (mean+1SD) FY25F EPS. Upside risks: Market share gains.

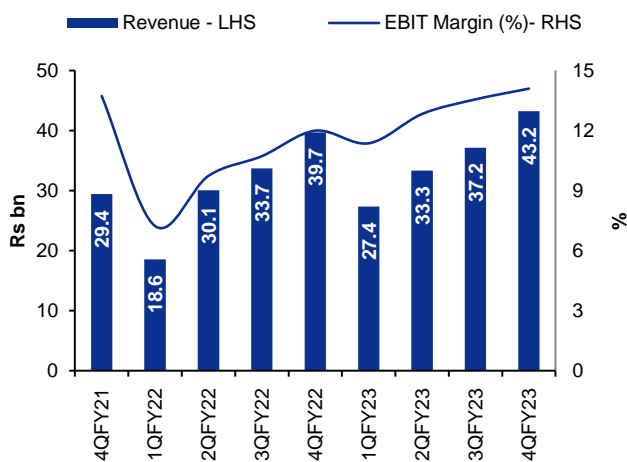
Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	87,922	122,038	141,078	159,793	178,800
Operating EBITDA (Rsm)	11,111	12,652	18,521	19,883	22,279
Net Profit (Rsm)	8,821	9,086	12,017	13,001	14,631
Core EPS (Rs)	56.5	56.9	80.2	86.8	97.7
Core EPS Growth	10.8%	0.7%	41.0%	8.2%	12.5%
FD Core P/E (x)	57.35	55.79	42.16	38.95	34.61
DPS (Rs)	10.0	14.0	20.0	25.0	30.0
Dividend Yield	0.29%	0.41%	0.59%	0.74%	0.89%
EV/EBITDA (x)	44.73	39.23	26.35	24.37	21.40
P/FCFE (x)	1,355.92	998.91	206.55	130.27	62.92
Net Gearing	(19.0%)	(19.5%)	(28.4%)	(29.4%)	(35.1%)
P/BV (x)	10.64	9.14	7.64	6.70	5.91
ROE	19.7%	16.6%	19.7%	18.3%	18.1%
% Change In Core EPS Estimates			(1.97%)	(2.61%)	(3.98%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY23 earnings-call takeaways

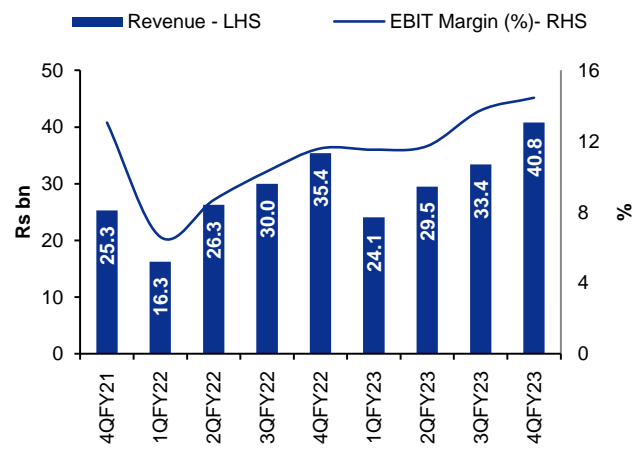
- Sales mix and growth guidance:** Cable revenue mix jumped to 70% of total C&W sales in 4Q vs. 60% qoq. C&W sales volume growth was 8-9% and 21% yoy in 4QFY23 and FY23, respectively. Wire sales volume was flat yoy in 4QFY23. In the FMEG segment, fans and lighting accounted for 60% of total revenue, switches/switchgear 15%, conduit pipes and fittings 15% and the remaining was accounted for by solar products, etc. in 4QFY23. Fans saw weak 4Q sales due to heavy channel filling in 3Q and erratic weather conditions during Mar 2023. Management indicated a double-digit consolidated revenue growth in FY24F.
- Exports:** International sales stood at Rs5.4bn, +125% yoy, and at Rs13.8bn, +50% yoy, in 4QFY23 and FY23, respectively. Polycab has gained strong traction in B2C sales through its distributors outside India, mainly in USA (60% of total exports), Australia, Europe and Latin America. The company intends to maintain its export revenue mix at at least 10% of total sales by FY26F.
- Advertisement spending:** Advertisement and sales promotion spending stood at Rs245m, +48% yoy, accounting for 0.6% of total sales in 4QFY23.
- Capex:** Polycab reiterated its capex budget of Rs6-7bn for CY23F, of which three-fourths will be dedicated to enhancing cable & wire capacity and the remaining for FMEG products and services. The Halol fan expansion project and the Daman factory for making switches are fully operational while the switchgear expansion at Nashik is nearing completion.
- WC cycle:** Net working capital or WC cycle stood at 62 days of TTM sales. Debtor days improved to 32 days of sales from 39 days yoy due to an increase in channel financing. Nearly 83% of the C&W segment's sales is under channel finance as at end-Mar 2023. Inventory stood at 76 days (66 days yoy) of sales while creditors improved to 53 days (36 days yoy) of sales at the end of Mar 2023. Management expects the working capital cycle to be largely stable at this level going ahead.
- Cash flow:** OCF/FCF stood at Rs14.3bn/Rs9.5bn, respectively, in FY23. Net cash (including equivalents) stood at Rs19bn at the end of Mar 2023 (vs. Rs11bn at the end of Mar 2022). Dividend payout is estimated at 25% of net profit in FY23 vs. 23% yoy.

Figure 1: Polycab's quarterly revenue and margin trend



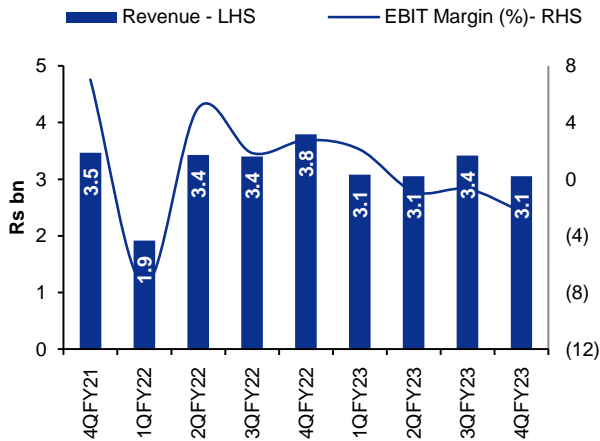
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Quarterly C&W revenue and margin trend



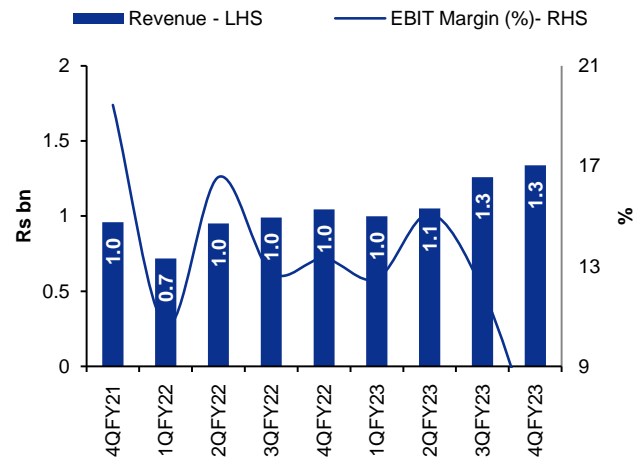
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Quarterly FMEG revenue and margin trend



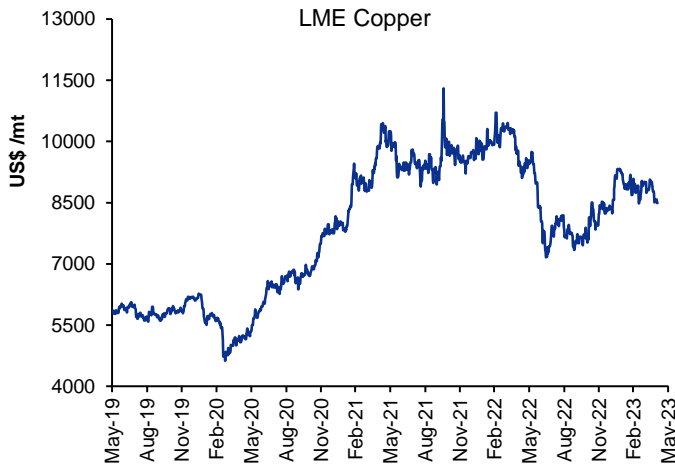
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Quarterly other segments' (mostly EPC) revenue and margin trend



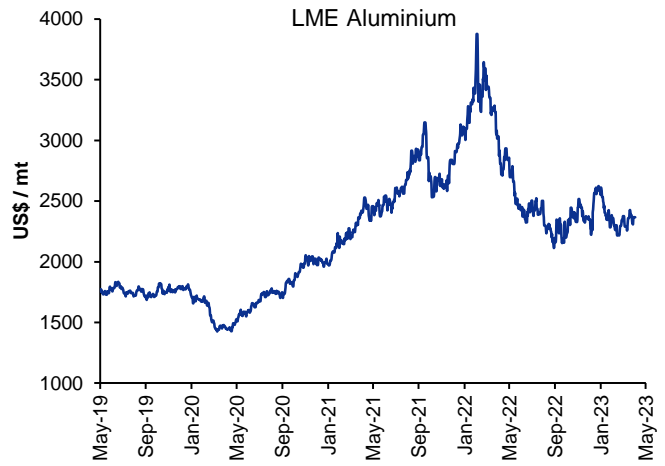
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Copper price trend



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 6: Aluminum price trend



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 7: 4QFY23 results snapshot

Rs m	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)	FY23	FY22	yoy (%)
Revenue	43,237	39,700	8.9	37,152	16.4	1,41,078	1,22,038	15.6
EBITDA	6,095	4,763	28.0	5,038	21.0	18,521	12,652	46.4
EBITDA margin (%)	14.1	12.0	210 bp	13.6	54 bp	13.1	10.4	276 bp
Adj. PAT	4,247	3,222	31.8	3,576	18.8	12,699	8,365	51.8
Diluted EPS (Rs)	28.4	21.5		23.9			55.8	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 8: 4QFY23 segmental results snapshot

	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)	FY23	FY22	yoy (%)
Revenue (Rs m)								
Wires and cables	40,783	35,400	15.2	33,418	22.0	1,27,775	1,07,938	18.4
FMEG	3,052	3,792	(19.5)	3,420	(10.8)	12,607	12,544	0.5
Other	1,338	1,044	28.1	1,260	6.2	4,647	2,998	55.0
Less: Intersegmental Revenues	-1,784	-507		-827		3,565	1,744	
Total	43,389	39,730	9.2	37,271	16.4	1,41,465	1,22,440	15.5
EBIT (Rs mn)								
Wires and cables	5,896	4,106	43.6	4,593	28.4	16,724	10,545	58.6
FMEG	-70	105	(166.5)	-24	191.3	-56	196	(128.6)
Other	82	139	(41.2)	152	(46.1)	517	499	3.6
Total	5,908	4,349	35.8	4,721	25.1	17,185	11,240	52.9
EBIT margin (%)								
Wires and cables	14.5	11.6	286 bp	13.7	71 bp	13.1	9.8	332 bp
FMEG	-2.3	2.8	-505 bp	-0.7	-158 bp	-0.4	1.6	-201 bp
Other	6.1	13.3	-720 bp	12.1	-594 bp	11.1	13.5	-235 bp
Total	13.6	10.9	267 bp	12.7	95 bp	12.1	9.2	297 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Actuals vs. our estimates

Rs m	4QFY23	4QFY23F	Var(%)
Revenue	43,237	42,947	0.7
EBITDA	6,095	5,698	7.0
EBITDA margin (%)	14.1	13.3	83 bp
Adj. PAT	4,247	3,813	11.4

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Actuals vs. Bloomberg consensus

Rs m	4QFY23	4QFY23C	Var(%)
Revenue	43,237	43,298	(0.1)
EBITDA	6,095	5,355	13.8
EBITDA margin (%)	14.1	12.4	173 bp
Adj. PAT	4,247	3,695	15.0

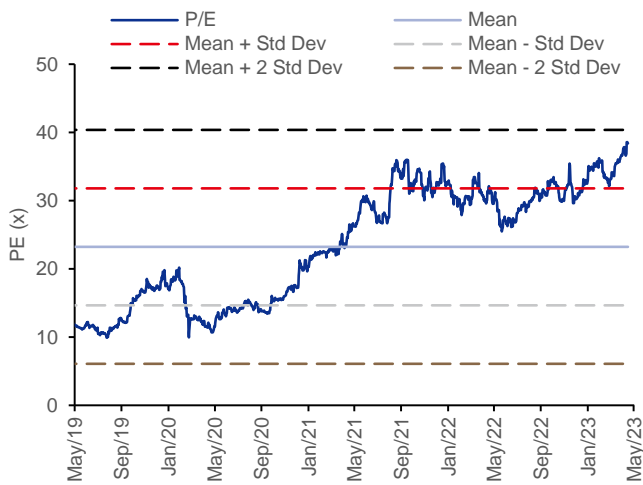
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 11: Our revised earnings estimates (Rsm)

	New estimates		Old estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	1,59,793	1,78,800	1,55,527	1,71,629	2.7	4.2
EBITDA	19,883	22,279	19,650	22,219	1.2	0.3
Adjusted consol. PAT	13,001	14,631	13,363	15,253	-2.7	-4.1
EPS	86.8	97.7	89.1	101.7	-2.6	-4.0
EBITDA margin (%)	12.4	12.5	12.6	12.9	-19 bp	-49 bp

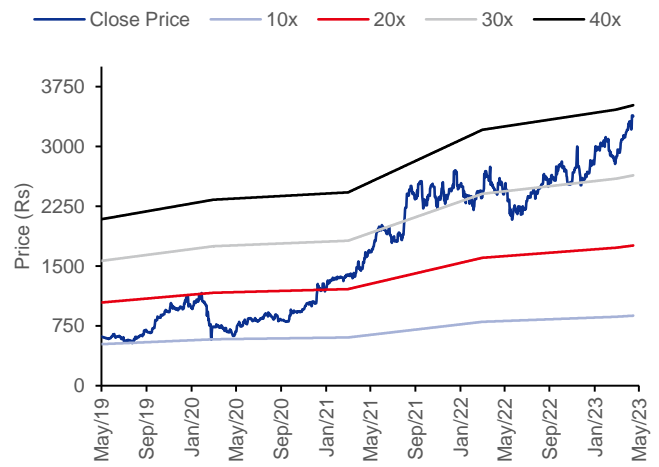
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 12: P/E standard deviation (since listing)



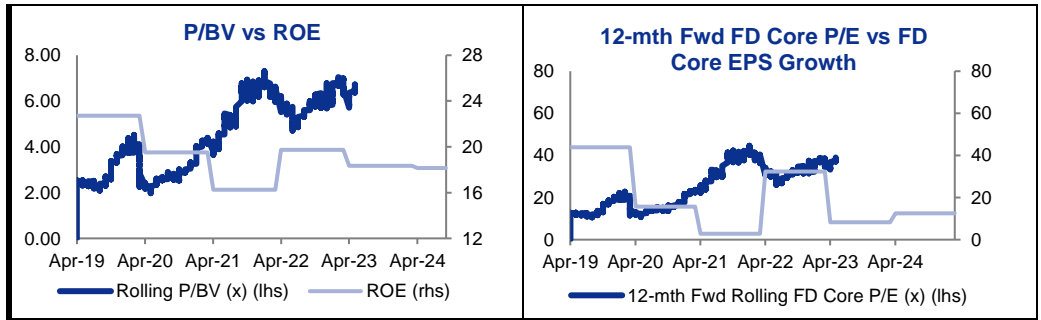
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 13: P/E band



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	87,922	122,038	141,078	159,793	178,800
Gross Profit	22,751	27,381	35,969	40,317	45,143
Operating EBITDA	11,111	12,652	18,521	19,883	22,279
Depreciation And Amortisation	(1,762)	(2,015)	(2,092)	(2,454)	(2,774)
Operating EBIT	9,350	10,637	16,430	17,429	19,505
Financial Income/(Expense)	(85)	(83)	(398)	(212)	(102)
Pretax Income/(Loss) from Assoc.	6	(26)	(93)	(102)	(112)
Non-Operating Income/(Expense)	851	630	451	474	497
Profit Before Tax (pre-EI)	10,122	11,158	16,390	17,589	19,788
Exceptional Items	441	721			
Pre-tax Profit	10,563	11,879	16,390	17,589	19,788
Taxation	(1,703)	(2,706)	(4,250)	(4,452)	(5,009)
Exceptional Income - post-tax					
Profit After Tax	8,859	9,173	12,140	13,137	14,780
Minority Interests	(38)	(87)	(123)	(135)	(149)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	8,821	9,086	12,017	13,001	14,631
Recurring Net Profit	8,451	8,529	12,017	13,001	14,631
Fully Diluted Recurring Net Profit	8,451	8,529	12,017	13,001	14,631

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	11,111	12,652	18,521	19,883	22,279
Cash Flow from Invt. & Assoc.					
Change In Working Capital	2,458	(4,974)	(1,058)	(2,358)	(1,165)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	474	695	213	160	283
Net Interest (Paid)/Received	85	83	303	212	102
Tax Paid	(2,409)	(3,340)	(3,704)	(4,452)	(5,009)
Cashflow From Operations	11,719	5,116	14,275	13,444	16,491
Capex	(1,846)	(5,200)	(4,965)	(6,000)	(4,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(304)	1,348			
Other Investing Cashflow	(7,971)	(418)	(7,062)	(3,556)	(4,442)
Cash Flow From Investing	(10,121)	(4,270)	(12,026)	(9,556)	(8,442)
Debt Raised/(repaid)	(1,226)	(339)	205		
Proceeds From Issue Of Shares	84	133	128		
Shares Repurchased					
Dividends Paid		(1,492)	(2,094)	(3,744)	(4,493)
Preferred Dividends					
Other Financing Cashflow	(463)	(309)	(476)	(656)	(660)
Cash Flow From Financing	(1,605)	(2,007)	(2,238)	(4,400)	(5,153)
Total Cash Generated	(7)	(1,161)	11	(512)	2,896
Free Cashflow To Equity	372	507	2,454	3,888	8,048
Free Cashflow To Firm	1,171	494	1,651	3,232	7,389

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	11,544	11,712	20,457	23,945	31,841
Total Debtors	14,358	12,964	12,466	15,323	16,165
Inventories	19,879	21,996	29,514	32,834	35,760
Total Other Current Assets	1,945	4,739	6,650	6,670	7,451
Total Current Assets	47,726	51,411	69,087	78,772	91,218
Fixed Assets	18,261	16,170	20,104	23,658	26,385
Total Investments	118	93			
Intangible Assets	94	230	203	203	203
Total Other Non-Current Assets	3,947	6,215	4,846	4,839	3,339
Total Non-current Assets	22,421	22,708	25,154	28,700	29,927
Short-term Debt	890	802	1,509	1,509	1,509
Current Portion of Long-Term Debt					
Total Creditors	13,480	12,175	20,326	24,078	26,942
Other Current Liabilities	5,104	4,331	4,291	4,378	4,899
Total Current Liabilities	19,474	17,308	26,127	29,966	33,350
Total Long-term Debt	1,597	30	42	42	42
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	931	821	1,236	1,236	1,236
Total Non-current Liabilities	2,528	851	1,278	1,278	1,278
Total Provisions	418	272	152	152	152
Total Liabilities	22,419	18,431	27,556	31,395	34,780
Shareholders Equity	47,539	55,437	66,311	75,568	85,706
Minority Interests	188	251	374	509	658
Total Equity	47,728	55,688	66,685	76,078	86,364

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	(0.4%)	38.8%	15.6%	13.3%	11.9%
Operating EBITDA Growth	(2.1%)	13.9%	46.4%	7.4%	12.0%
Operating EBITDA Margin	12.6%	10.4%	13.1%	12.4%	12.5%
Net Cash Per Share (Rs)	60.54	72.57	126.17	149.53	202.25
BVPS (Rs)	317.75	369.77	442.54	504.58	572.27
Gross Interest Cover	21.90	30.23	27.49	26.56	29.56
Effective Tax Rate	16.1%	22.8%	25.9%	25.3%	25.3%
Net Dividend Payout Ratio	17.8%	25.0%	24.9%	28.8%	30.7%
Accounts Receivables Days	59.56	40.86	32.90	31.74	32.14
Inventory Days	109.57	80.74	89.44	95.24	93.66
Accounts Payables Days	75.66	49.46	56.43	67.83	69.67
ROIC (%)	24.9%	26.7%	35.9%	35.4%	35.4%
ROCE (%)	21.3%	20.3%	26.6%	24.5%	24.2%
Return On Average Assets	13.1%	11.8%	14.9%	13.2%	13.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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